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UNCLAS SECTION 01 OF 02 JAKARTA 002864

SIPDIS

STATE FOR EAP/MTS, EEB/IFD/OIA, INL BOULDIN
MCC FOR AMBASSADOR DANILOVICH AND MORFORD
DEPT PASS USTR
SINGAPORE FOR BAKER
TREASURY FOR IA - BAUKOL
USAID FOR ANE/AA WARD

SENSITIVE
SIPDIS

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SUBJECT: SUPREME AUDIT BOARD SETTING VISION, LACKING CAPACITY

REF: JAKARTA 2722

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¶1. (SBU) SUMMARY: The Indonesian Supreme Audit Board (BPK) presented its semiannual audit report to Parliament on October 10, documenting 1,543 cases that caused \$854 million in losses to the state. The BPK performs key government oversight functions, yet lacks the resources, capacity, and cooperation with other government agencies to enact its strategic plan. A 2005 law requires all government bodies to provide financial reporting to the BPK. BPK Chairman Dr. Anwar Nasution continues to engage in political battles to increase government accountability. With only 600 auditors, the BPK's capacity to implement its own responsibilities is far from comprehensive. End Summary.

BPK Reports \$854 Million in Losses to State

¶2. (U) On October 10, the BPK reported to Parliament 1,543 cases of government malfeasance that caused Rp 7.69 trillion (\$854 million; Rp 9,000/USD) in losses to the state. High-profile cases involved wrongdoing at state-owned investment company PT Bahana Pembina Usaha Indonesia (BPUI), state-owned airline Merpati, and local governments. Nasution presented the semiannual audit report to Parliament and noted the government's reluctance to follow-up on BPK findings. Since 2004, the BPK has documented 5,717 cases that caused a loss of state assets. Only 860 of these cases - 15% - have had full asset recovery. Compared to 2005 findings, the BPK has reported comparatively fewer cases for 2006. The BPK documented thousands of cases in 2005 reports, amounting to Rp 48 trillion (\$5.33 billion) in losses to the state.

Wide Mandate, Limited Resources

¶3. (SBU) Covering 467 local-level governments, 82 government institutions, all state-owned enterprises, and other special audits, the BPK is stretched with only 600 auditors and 3,000 total staff.

We met with BPK Director General for Strategic Planning Daeng Nazier on October 1. (See bio notes in paragraph 10.) BPK's core responsibility is conducting financial audits of local government and government institutions. It also does performance audits (i.e. Health Ministry handling of avian influenza) and special purpose audits (i.e. Lapindo mud flow, Aceh reconstruction, disaster management).

14. (U) The BPK evaluates institutions based on adherence to government accounting standards, effective internal control, and adequate disclosure. Four possible results are: unqualified positive with no exceptions (highest), qualified positive with exceptions, adverse, and disclaimer - unable to make judgment. If the BPK gives an adverse rating, the institution reviewed has 60 days to implement the findings and recommendations. If problems continue, the BPK reports the case formally to the Attorney General's Office. Fraud cases are sent to the police and on a case-by-case basis to the Corruption Eradication Commission (KPK). Law enforcement can file penal, civil, or administrative cases based on BPK findings.

15. (U) In 2006, the BPK evaluated 82 government institutions, such as the State Logistics Agency (BULOG), Parliament, and the Judicial Commission. The BPK reported that six institutions earned an unqualified positive rating (highest score), 39 earned qualified positive ratings, 37 received a disclaimer (unable to make a judgment), and no institution received an adverse rating. For 2006 audits, 362 of the 467 local governments submitted financial reports to the BPK. Three local governments (Surabaya, Pontianak, Sambas) earned an unqualified positive rating, 284 earned a qualified positive rating, and 56 received a disclaimer judgment. The BPK gave 19 adverse (negative) ratings, including both East and West Kalimantan Province.

Limitations of BPK

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16. (U) The BPK is severely limited by its personnel - only 3,000 staff - and lack of reach into the provinces. The BPK has only established 23 of the proposed 33 provincial level offices. Daeng acknowledged that the 600 BPK auditors are not sufficient to cover its expansive mandate. A long-discussed merger of the BPK with the state audit authority, the BPKP, has not materialized and has met with strong resistance from the BPKP.

BPK's Perspective on Governance Problems

17. (U) Daeng said that there is a trend across local governments of inefficient budget formulation, implementation, and monitoring. Both Aceh and Jakarta province had Rp 2 trillion (\$222 million) remaining in their budgets in 2006. Many have offered reasons for the slow spending, including the lack of experience of newly elected officials. Daeng suggested that poor or non-existent budget planning processes is one cause. Local government officials are also concerned about corruption charges if they approve large procurement contracts. Procurement processes have traditionally been discretionary and a source of graft. Standardized guidelines and training for procurement officials in Indonesia do not yet exist.

18. (SBU) BPK Chairman Dr. Anwar Nasution, a Harvard-trained macroeconomist, has led several political battles to assert the role of the BPK. President Yudhoyono decided in favor of the BPK in a controversy with the Supreme Court over the BPK's authority to audit revenues from court fees (see reftel). However, Daeng was not optimistic on Supreme Court cooperation in upcoming BPK investigations. Nasution has also picked a fight with the Director General of Tax at the Ministry of Finance. Nasution wants BPK authority to audit the Directorate General of Tax, particularly tax collection methods. The powerful Directorate General of Tax is responsible for collecting 70% of government revenue. Nasution's willingness to push for the BPK's stronger role in auditing is encouraging. However, the bureaucratic forces resisting the BPK are

still immense.

Comment: Good Vision, Lacking Capacity

¶9. (SBU) The BPK has a strong mandate, institutional vision, and leadership. It has improved its own transparency according to US GAO recommendations in 2005, including posting reports online. However, a lack of personnel and financial resources severely limit the reach and effectiveness of BPK's auditing. BPK's ability to follow-up on documented malfeasance, such as the 19 adverse opinions it rendered for 2006 audits, remains to be seen. The BPK can take a strong role in combating corruption within the government. However, it will need increased funding and political support to achieve its mission of government accountability.

Daeng Nazier Bio Notes

¶10. (U) Daeng Nazier is Director General for Strategic Planning, which includes planning, evaluation, research and development, and education and training at the BPK. Daeng joined the BPK in August 2007 after two years at the Ministry of Home Affairs as the Director General for Local Government (2005-2007). Daeng worked for the Ministry of Finance for 30 years, rising to Director General level (1975-2005).

¶11. (U) For more information on the BPK, see www.bpk.go.id. The English website is limited, but does include an audit report on Aceh reconstruction.

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